SaskTel

Consolidated Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

December 31, 2006

Saskatchewan Telecommunications International Inc. (SaskTel International)

www.sasktel-international.com

SaskTel International, a wholly owned subsidiary of SaskTel, helps their clients in countries around the world to develop, improve and expand their telecommunications systems by providing infrastructure project management services. SaskTel International also offers innovative software solutions that provide a modular approach to managing every aspect of a telecommunications network. Throughout SaskTel International's history, they have worked in more than 30 countries on six continents.

Over their 20 years of existence, SaskTel International has helped bring total revenues of $515 million and total profits of $122 million to SaskTel, and has earned a profit every year since 1992. All SaskTel International's revenues and profits are repatriated to SaskTel, where they are used to sustain and improve SaskTel's network and services in Saskatchewan and enhance returns to the Province in the form of dividends. SaskTel International provides employment for 78 people.

President's Message

From Manila to Manchester, and many places in between, we have been helping clients develop, improve and expand their telecommunications systems since 1986. In 2006, our 20th anniversary year, SaskTel International has achieved the fifteen consecutive year of profitability with net income exceeding six hundred thousand.

We use advanced technologies that SaskTel developed to serve the people of Saskatchewan, especially in fiber optics, digital switching and software systems, to open the doors to international markets. SaskTel International's unique relationship with SaskTel, a successful independent operating telecommunications company that is not affiliated with any specific equipment vendor, allows it to search the international marketplace and offer unbiased solutions to its customers.

In 2006, SI marketed SaskTel's IPTV expertise across North America and beyond. Thanks to the success of SaskTel ***Max***™ Entertainment Services, which was launched in 2002, SaskTel is recognized as a pioneer in the field of IPTV. Organizations and corporations in the industry are showing an interest in learning about the service from SaskTel experts, and so in the near future we hope to begin to capitalize on that interest

In addition to providing technological and software solutions to customers throughout the world, SI has, in recent years, brought successful investment opportunities to the SaskTel Holding Corporation. We have been responsible for investments that have generated a net profit for SaskTel and the Province of Saskatchewan of more than $100 million. SI will continue to explore equity investments that are excellent opportunities.

Looking ahead we see signs that the telecommunications market will continue to show signs of positive growth and provide many profitable opportunities for SI to work throughout the world

I would like to thank our dedicated employees and management team, and especially our customers for their contributions in making 2006 a successful year.

Doug Burnett

President, SaskTel International

KPMG

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications International, Inc. as at December 31, 2006 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
January 25, 2007

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Consolidated Statement of Operations

For the year ended December 31, (Thousands of dollars)	2006	2005
Sales and consulting revenue	$15,774	$13,954
Direct expenses	11,772	9,345
Gross profit	4,002	4,609
Operating expenses	3,257	3,608
Restructuring charges	72	49
	3,329	3,657
Income from operations	673	952
Other items	50	92
Net income	$723	$1,044

See accompanying notes

Consolidated Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2006	2005
Retained earnings, beginning of year	$1,896	$1,792
Net income	723	1,044
	2,619	2,836
Dividends	651	940
Retained earnings, end of year	$1,968	$1,896

See Accompanying Notes

Saskatchewan Telecommunications International, Inc.

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	**2006**	2005
Assets		
Current assets		
Cash and short-term investments (Note 3)	**$344**	$2,484
Accounts receivable	**2,425**	1,466
Work in process	**923**	472
Prepaid expenses	**62**	32
	3,754	4,454
Property, plant and equipment (Note 4)	**261**	363
Deferred costs (Note 5)	**970**	970
Investment (Note 6)	**-**	12
	$4,985	$5,799
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities	**$1,366**	$1,680
Services billed in advance	**-**	283
Dividend payable	**651**	940
	2,017	2,903
Shareholder's equity		
Share capital		
Authorized-unlimited number of class A common shares		
Issued - 1,000,000 shares	**1,000**	1,000
Retained earnings	**1,968**	1,896
	2,968	2,896
	$4,985	$5,799

See Accompanying Notes

On behalf of the Board

Robert Watson

Mike Anderson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2006	2005
Operating activities		
Net income	$723	$1,044
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	79	81
Net loss in equity investment	12	31
Loss on disposal of assets	17	-
Service recognition defined benefit program curtailment	-	154
Net change in non-cash working capital (Note 7)	(2,010)	(1,026)
Cash (used in) provided by operating activities	(1,179)	284
Investing activities		
Property, plant and equipment expenditures	(21)	(499)
Cash used in investing activities	(21)	(499)
Financing activities		
Dividends paid	(940)	(6,412)
Cash used in financing activities	(940)	(6,412)
Decrease in cash	(2,140)	(6,627)
Cash and cash equivalents, beginning of year	2,484	9,111
Cash and cash equivalents, end of year	$344	$2,484
Comprised of:		
Cash	$23	$167
Short-term investments	321	2,317
	$344	$2,484

See Accompanying Notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications International, Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan. The Corporation is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of pursuing core telecommunications business opportunities worldwide.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Subsidiaries and investments

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated. Investments in companies in which the Corporation has significant influence are accounted for by the equity method.

Declines in value below cost, of investments held using the equity method, are recognized as a charge to income when such declines are considered to be other than temporary.

The following is a summary of the operating entities under the Corporation's group of companies:

Name	Percentage ownership	Basis for inclusion
Operating entities:		
SaskTel International Consulting, Inc.	100%	Consolidation
Saskatchewan Telecommunications International (Tanzania) Limited	100%	Consolidation
Lootah SaskTel LLC	49%	Equity

The Corporation owns 100% of a non-operating entity, Battleford International, Inc.

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at cost which approximates market value.

Work in process

Work in process is valued at the lower of cost and net realizable value.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Property, plant and equipment

Office furniture and equipment, are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Office furniture and equipment	4 – 17 years

Deferred costs

Deferred costs consist of software developed over time. The Corporation follows the policy of capitalizing related equipment, labour and installation costs related to the development of new software. These costs are then amortized from the date the asset is substantially completed and put into productive use. Amortization is calculated on a straight-line basis over the estimated useful life of the asset.

Management of the Corporation periodically assesses the recoverability of the deferred costs with respect to expected future operations and will write off the deferred costs not considered recoverable.

Asset	Estimated useful life
Software	5 years

Revenue recognition

Operating revenues for perpetual licenses are recognized on delivery or according to the terms of the license agreement. Where the arrangement includes multiple elements, perpetual license revenues are recognized on delivery, provided the undelivered elements are not essential to the functionality of the license and the Corporation has evidence of fair value for all the undelivered items. If payment is subject to customer acceptance, revenue is not recognized until customer acceptance or expiration of the acceptance period. Support and maintenance fees are recognized over the term of the contract. Fees for professional services, other than in the context of multiple element arrangements are recognized as services are rendered.

Revenues for turn-key telecommunication projects and consulting services are recognized using the percentage of completion method or the achievement of contract milestones. Amounts billed or paid in advance of services provided are recorded as deferred revenue.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of software, accounts receivable and the underlying provision for bad debts. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 – Cash and short-term investments

Short-term investments represent funds invested with Holdco at an interest rate of 4.31% (2005 – 3.24%).

Note 4 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Office furniture and equipment	**$558**	**$297**	**$261**	$363

Depreciation and amortization for the year totalled $79,427 (2005 - $81,192).

Note 5 – Deferred costs

	Cost	Accumulated amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Software under development	**$970**	**$ -**	**$970**	$970

Note 6 – Investment

	2006	2005
	(Thousands of dollars)	
Significantly influenced companies: equity method		
Lootah SaskTel LLC	**$ -**	$12

Notes to Consolidated Financial Statements

Note 7 – Net change in non-cash working capital

	2006	2005
	(Thousands of dollars)	
Accounts receivable	$(959)	$(684)
Work in process	(450)	(126)
Prepaid expenses	(30)	13
Accounts payable and accrued liabilities	(288)	(512)
Services billed in advance	(283)	283
	$(2,010)	$(1,026)

Note 8 – Commitments and contingencies

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2006 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Note 9 – Financial instruments

Credit risk

The Corporation is exposed to credit risk relating to accounts receivable balances from international contracts. The accounts receivable balances are primarily from large telecommunications companies or international government development agencies.

Currency exposure

The Corporation's primary business is international telecommunications consulting, through contracts, which entails exposure to foreign exchange risk. The Corporation's foreign exchange risk relates primarily to the risk that the market value of accounts receivable and the associated revenues, and accounts payable and the associated expenses will fluctuate due to changes in exchange rates. A portion of the Corporation's accounts receivable and accounts payable are denominated in United States dollars, Great Britain pounds, Tanzania schillings, and Mozambique meticais.

Fair value

The carrying amounts of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, and dividend payable approximate fair value due to the short-term nature of the financial instruments.

Notes to Consolidated Financial Statements

Note 10 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2006	2005
	(Thousands of dollars)	
Sales and consulting revenue	**$1,941**	$2,105
Direct and operating expenses	**882**	907
Other income	**79**	123
Accounts receivable	**333**	61
Accounts payable and accrued liabilities	**11**	617

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Note 11 – Comparative figures

Certain of the 2005 figures have been reclassified to conform to the current year's presentation.